AR91

welcome to Pason>>

Pason Systems Inc. is the world's largest provider of rental oilfield instrumentation systems that are designed and manufactured for use on land-based drilling and service rigs. Pason offers a tightly integrated package of complex services including data acquisition, wellsite reporting software, remote communications and Internet information management tools.

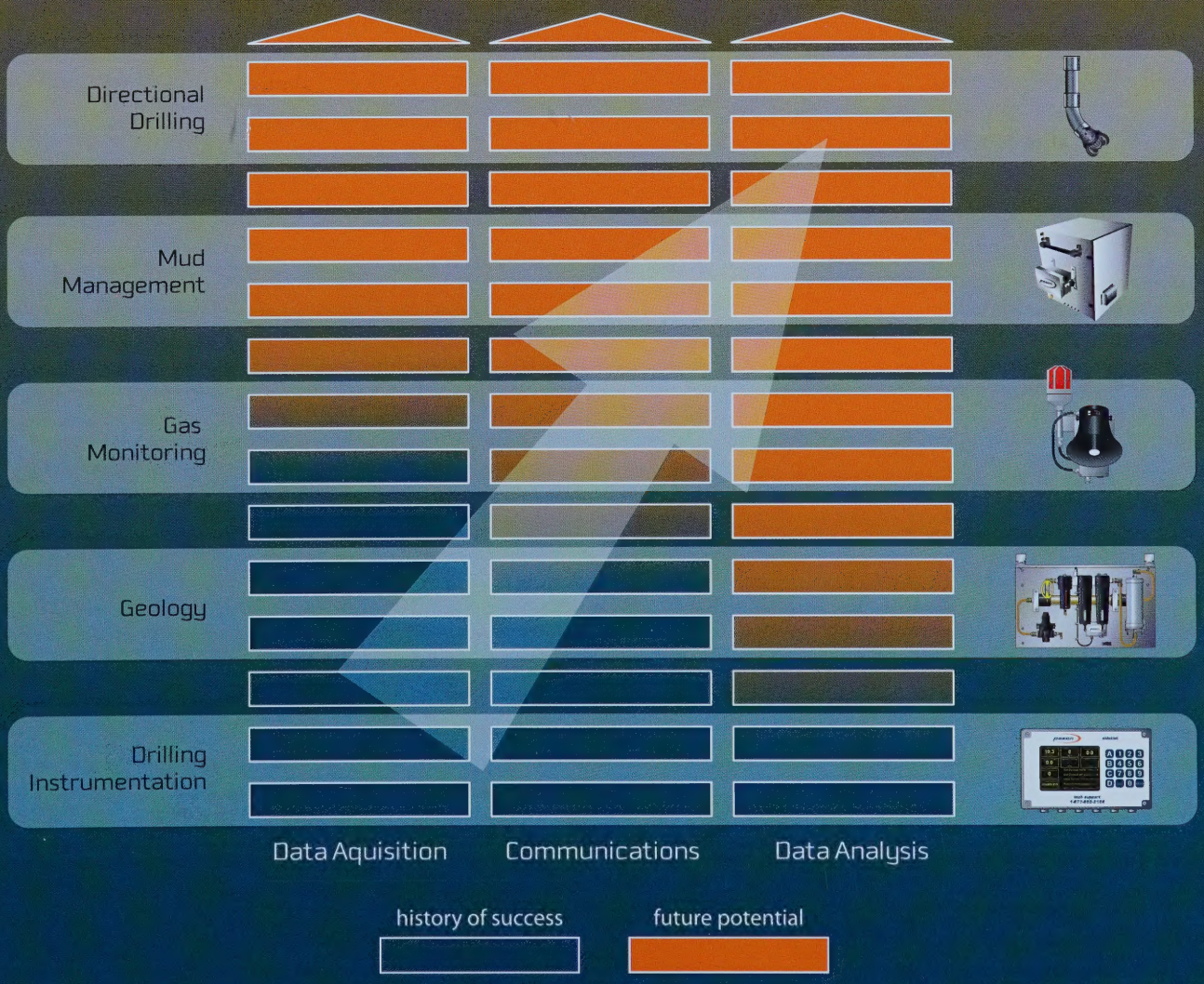
Pason's strategic focus on unique proprietary solutions and providing the industry best in customer care gives us a competitive advantage by bridging the physical separation between the remote wellsite and the office. Leveraging these services on our dominant Canadian wellsite presence, a leading position in the United States, and growing operations in South America and Australia, has created consistent revenues from each product line and an annual average 28% return on shareholders' equity over the past decade.

Pason is a Canadian corporation with its head office located in Calgary, and United States offices in Golden and Houston. Common shares of Pason Systems Inc. are listed for trading on the Toronto Stock Exchange under the ticker symbol PSI.

leaders in technology – Pason's Hazardous Gas Alarm (below) which monitors H2S and explosive gases is more robust than any other on the market and is fully integrated with our Electronic Drilling Recorder (EDR). We are encouraged by the early acceptance of this new product.

going forward >>

With proven success and expertise solving data acquisition problems and communicating data, Pason continues to see significant future potential in these areas. Going forward, Pason is developing a third oilfield service discipline: data analysis. While not intending to compete directly with the multitude of data analysis services, we do recognize growth potential in niche markets, such as drilling optimization. With the ability to leverage existing data acquisition equipment via our satellite communication network, we believe we can meet the wellsite needs of not only drilling parameters, but also other services including gas monitoring, mud management, and directional drilling. Now that's Pason going forward.



a message from the president >>

As was the case for all Canadian oilfield service companies, 2007 was a decidedly mixed year for Pason. While United States and International results increased to new record levels a substantial decline in Canadian drilling activity had negative ramifications that more than offset the positive accomplishments outside of Canada. As a result consolidated net income declined 15% to $55.1 million and basic earnings per share fell 17% to $0.69. Revenue at $236.4 million and cash flow of $103.8 million held up much better with year-over-year declines of just 2% and 3% respectively. Although financial results were less than 2006, 2007 was still the second best in the history of the Company.

Although oil prices flirted with $100 a barrel during 2007 it is really natural gas prices that drive the North American oilfield. Natural gas prices averaged $6.15 an mcf during the year, which while not stellar was certainly not a disastrous price environment. Why then did U.S. and Canadian drilling activities go in opposite directions? United States drilling industry days increased 9% due primarily to increased drilling in non-conventional shale plays in the U.S. Rockies and Texas, which require a significantly higher drilling density. In Canada, where drilling days fell 23%, there was no shortage of negative industry factors. The unfavourable tax changes to royalty trust companies announced in late 2006, the declining value of Canadian oil and gas production denominated in U.S. dollars, uncertainty over and eventually the announcement of increased royalty rates in Alberta and finally the rising drilling costs in the face of smaller discoveries - all combined to create a "perfect storm" of negativity that undercut Canadian drilling prospects.

While much of the lost rig activity in Canada was offset by an increased U.S. rig count for Pason, it proved difficult to sustain our profitability because despite similar unit prices we do not generate similar margins in the United States. This is consistent with most service companies working on both sides of the border, although we are working diligently to improve our U.S. margins. In Canada we had a difficult choice to make which faces all companies in years of declining activity. Do you significantly cut costs and the operational capabilities of your company or do you continue to invest to position the business for the time when activity returns? The importance of this decision becomes clear when examining history. The oilpatch is somewhat unique in how fast activity slumps and rebounds such that if you wait for clear indications of the rebound, you may waste most of the boom period trying to build capacity to take advantage of the increased business. At Pason we have always chosen to invest prudently in our future growth. Thus while our profits could have been higher last year, we remain strongly profitable, have substantial financial resources and flexibility and possess all of our capacity to resume growth when the market returns.

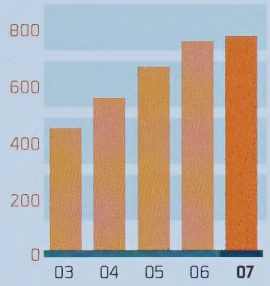
16%
U.S. revenue increase

18%
U.S. segment profit increase

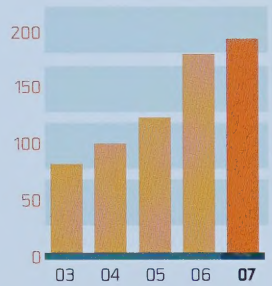
Our best business unit in 2007 was the United States where our revenue increased 16% to $133.1 million and segment operating profit was $58.6 million, an improvement of 18%. Within these numbers it is important to remember that the Canadian dollar appreciation of 18% during the year significantly eroded our results when reported in Canadian dollars. More impressively the rental days for our main product, the electronic drilling recorder, were up 23% for the year, versus the lesser increase of 9% in industry drilling days. At the end of the year we had some Pason equipment installed on 53% of all U.S. land rigs, which was up 3 percentage points from 2006 in a very competitive market. We continue to grow revenue in the U.S. by expanding the regions in which we offer our services which meant expansion in Mississippi and the Appalachian states during the year. We also had a significant increase in automatic driller (AutoDriller) revenue of 47% in 2007.

In Canada our revenue declined by 20% to $95.6 million and our segment profit fell substantially to $31.9 million, a decline of 46% from 2006. Our revenue decline was actually less severe than the 23% drop in Canadian drilling industry days because of unit price stability plus increased contribution from new products such as the electronic service recorder and the hazardous gas alarm. Our revenue per industry day actually increased in 2007 to $770 from $752 in 2006. Our service recorder revenue, although still insignificant at $2.0 million in revenue, showed positive momentum with revenue per industry service day of $8 versus $4 in the prior year. Profitability was hurt by several factors. We completed a complicated and expensive outsourcing of new equipment assembly to contract manufacturers during the year. Unfortunately, lower current activity has impacted our ability to demonstrate the savings and benefits from this move, but in the future we will be able to increase production with less overhead. On the R&D side we continue to add people to provide support for mainline products and new product development, which is consistent with our strategy for future growth.

rental revenue/
Canadian industry
drilling day >>



rental revenue/
U.S. industry
drilling day >>



leaders in value - Pason's EDR touch screen computer (below) continues to set the industry standard in robust, easy-to-use, cost-effective, and accurate data capturing technology.

at Pason we have always chosen to invest prudently in our future growth.

Our International business units showed continuing growth with segment operating profit up 47% to $4.8 million. South America continues to be the prime contributor to our International operations. We are currently searching for a fulltime general manager for our International business as we prepare to increase our focus and investment on International markets.

During several of our recent quarterly earnings conference calls we described an overall product strategy to optimize Pason's strengths and provide us new revenue opportunities. This strategy is illustrated with the schematic on page 1 of this annual report. Simply expressed, there are a number of oilfield services that provide wellsite data acquisition, communications and analysis. This means multiple specialty service company employees traveling back and forth from the same rig. This is expensive for the industry and not particularly efficient as often it takes longer to get to the rig than it takes to perform the service. This inefficiency impacts producer costs and is further amplified by the growing cost of attracting and training qualified service people. In the industry's focus on reducing drilling costs, a different business model offers great potential for savings. We believe drilling instrumentation companies like Pason are well positioned to meet all the wellsite needs of data acquisition and communication for not only rig drilling parameters but also other services such as gas monitoring, mud management and directional drilling. In the third element of the service that we diagram, analysis, we do not intend to compete directly with the multitude of services but feel there are niches where Pason can provide greater value – such as with drilling optimization. To further this model we are currently prototyping a drilling mud analyzer that can determine a complicated set of drilling mud properties with only the assistance of the regular drilling crew. We are also facilitating directional drilling done remotely, which provides Pason opportunities for both hardware and software rentals. We expect to be generating revenue from these products later this year.

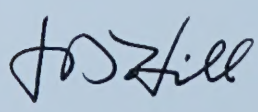
With a significant portion of the rig market still available to us in both the United States and Internationally, plus a number of exciting new product ideas in the pipeline, Pason is extremely well positioned to weather a very long low drilling cycle. Further, despite some profitability challenges, we should remain strongly cash flow positive this year as our capital expenditure budget, currently projected at $50 million, declines from the prior year.

In assessing Pason's outlook, both near- and long-term, the importance of the North American natural gas market cannot be discounted. A series of warmer than normal winters combined with U.S. gas production growth and a surge in liquefied natural gas shipments has depressed gas prices and gas-related drilling activity. North American gas consumption is growing due to its cost advantage compared to high-priced oil. The natural force of reservoir depletion is eroding Canadian gas production and that depletion rate appears to be accelerating. LNG shipments to this continent are being diverted to other world markets willing to pay higher prices. With or without colder winters, the laws of supply and demand will correct the current gas oversupply, lifting gas prices and stimulating a recovery in gas-related drilling. Predicting the date of this recovery is impossible, but within about a year is a reasonable assumption. At that point we would expect to resume our strong growth that has contributed to our 11-year record as a public company of generating a return on equity approaching 30%. To you, our shareholders, we pledge to manage Pason prudently and with the goal of positioning the company to fully capture the profits from the next business upturn.

82%
electronic service recorder revenue increase

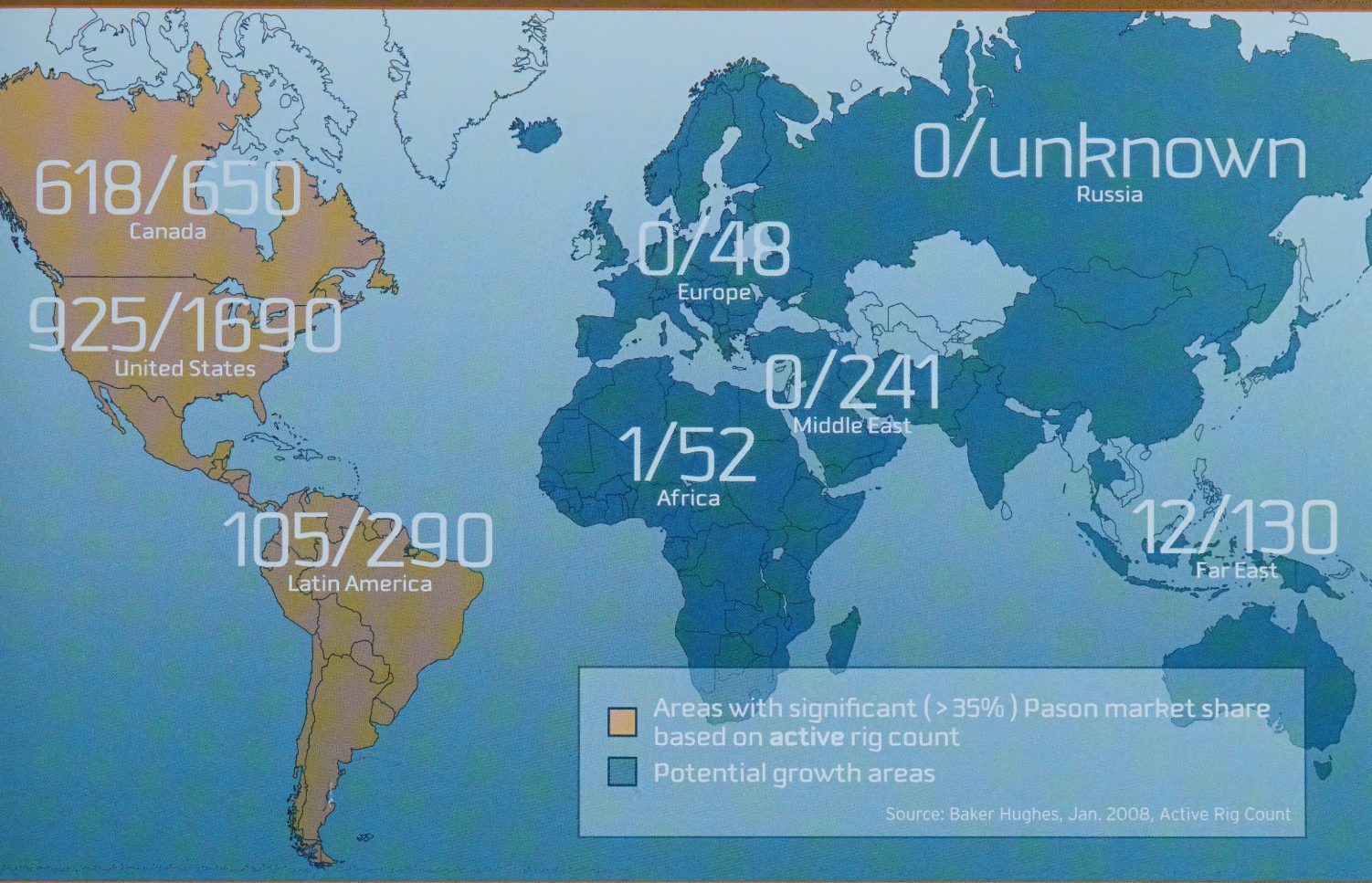
47%
international segment profit increase

On behalf of the Board of Directors,

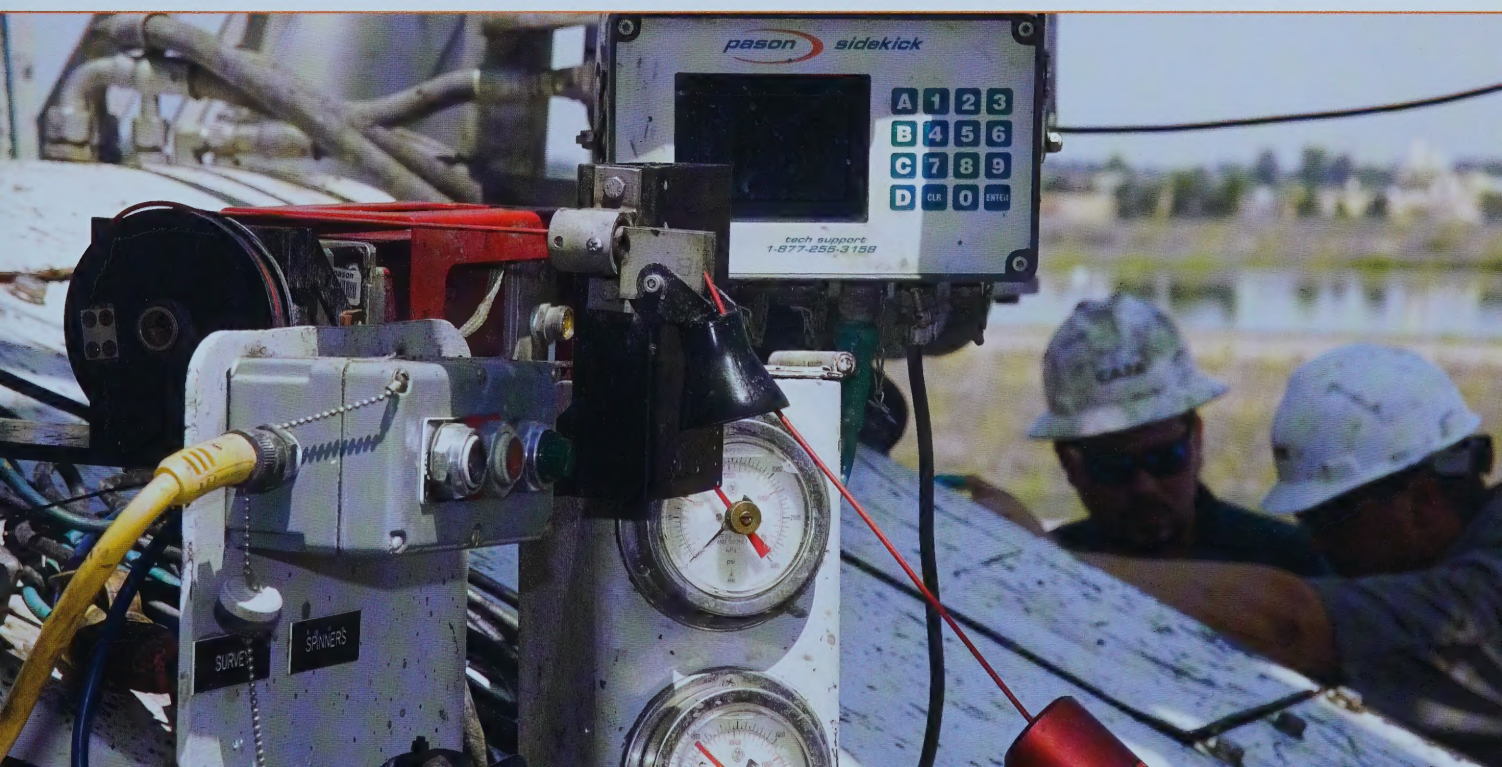


Jim Hill
President & Chief Executive Officer
March 1, 2008

Pason's share of active worldwide land-based drilling rigs >>



leaders in industry – Pason's AutoDriller (below) maintains constant weight on the drill bit and improves speed and efficiency while drilling a well. Pason AutoDriller revenue in 2007 was up 47% in the United States and 43% in Latin America.



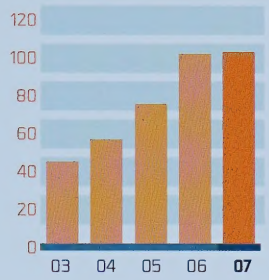
performance data >>

	three months ended december 31			years ended december 31		
	2007	2006	% change	2007	2006	% change
(000s, except per share data) (unaudited)	($)	($)		($)	($)	
Revenue	60,548	61,630	(2)	236,439	240,584	(2)
EBITDA [1]	32,190	34,492	(7)	128,088	143,238	(11)
As a (%) of revenue	53.2	56.0	(5)	54.2	59.5	(9)
Per share – basic	0.40	0.44	(9)	1.61	1.84	(13)
Per share – diluted	0.40	0.43	(7)	1.59	1.79	(11)
Cash flow from operations [1]	26,462	24,818	7	103,766	107,451	(3)
Per share – basic	0.33	0.32	3	1.30	1.38	(6)
Per share – diluted	0.33	0.31	6	1.29	1.34	(4)
Earnings	15,503	15,079	3	55,052	64,531	(15)
Per share – basic	0.19	0.19	–	0.69	0.83	(17)
Per share – diluted	0.19	0.19	–	0.68	0.81	(16)
Common share dividends						
Per share	0.085	0.075	13	0.16	0.125	28
Capital expenditures	19,013	24,436	(22)	76,615	71,233	8
Working capital	76,783	58,495	31	76,783	58,495	31
Total assets	301,570	270,860	11	301,570	270,860	11
Shareholders' equity	270,717	231,209	17	270,717	231,209	17
Return on shareholders' equity (%)[1]	–	–	–	22	33	(33)
Market capitalization	1,003,500	1,044,000	(4)	1,003,500	1,044,000	(4)
Weighted average shares outstanding (#)	80,224	78,654	2	79,586	77,899	2

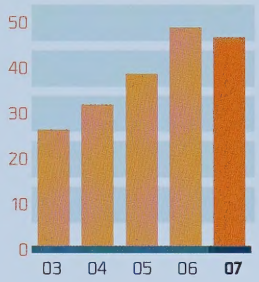
(1) EBITDA is defined as earnings before interest expense, income taxes, stock-based compensation expense and depreciation and amortization expense. Cash flow from operations is defined as earnings adjusted for depreciation and amortization expense, stock-based compensation expense and future income taxes. Return on shareholders' equity is calculated as earnings over the simple average of the beginning and ending shareholders' equity. These definitions are not recognized measures under Canadian generally accepted accounting principles, and accordingly, may not be comparable to measures used by other companies.

leaders in innovation – Pason is launching an industry-first, automated mud analyzer in 2008 (below). This convenient, cost-effective, and accurate device is set to revolutionize the way fluid analysis is performed on drilling operations. Like all Pason equipment, the mud analyzer is fully integrated with our EDR and automatically aiming satellite system, so data is quickly communicated off site.

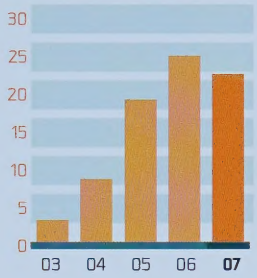
EDR revenue>>



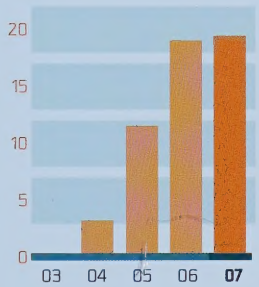
PV T revenue>>



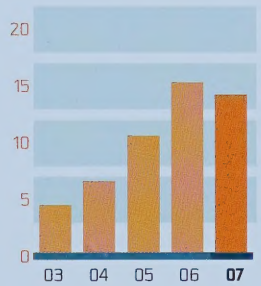
communications revenue>>



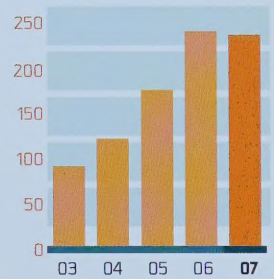
AutoDriller revenue>>



TGAS revenue>>



total revenue>>



revenue by geographic segment

56% United States

41% Canada

3% International

corporate info>>

directors

Harold R. Allsopp, MBA, CA [1][2]
President
Habede Holdings Ltd.
Calgary, Alberta

G. Allen Brooks, MSc, CFA [2][3][4]
President
G. Allen Brooks, LLC
Houston, Texas

Murray L. Cobbe, Eng.
Diploma (Petroleum) [1][3][4]
President & Chief Executive Officer
Trican Well Service Ltd.
Calgary, Alberta

James D. Hill, BSc, CA
Chairman of the Board and
President & Chief Executive Officer
Pason Systems Inc.
Calgary, Alberta

James B. Howe, CA [1][2][4]
President
Bragg Creek Financial Consultants Ltd.
Calgary, Alberta

Peter S. Mackechnie, CA [3]
Private Investor
Vail, Colorado

[1] Audit Committee Member

[2] Compensation Committee Member

[3] Corporate Governance Committee Member

[4] Special Dividend Committee Member

officers and key personnel

Pason Systems Inc. / Pason Systems Corp.

Jim Hill
President & Chief Executive Officer

Bob Rodda
Chief Operating Officer

Jim Glasspoole
Chief Financial Officer

David Holodinsky
General Manager Canada

Lucy Tomie
Controller

David Elliott
Treasurer

David White
R&D Manager

Joe Seeman
Manufacturing Manager

James Parks
Quality Assurance Manager

Ken Ledger
Risk Manager

Ron Dudar
Human Resources Manager

Pason Systems USA Corp.

Jim Hill
Chairman of the Board

Greg Lindsay
President and General Manager USA

Lee Maassen
Controller

Jerry Aberle
Secretary

corporate head office

Pason Systems Inc.
6130 Third Street S.E.
Calgary, Alberta, Canada
T2H 1K4

Telephone: (403) 301-3400
Facsimile: (403) 301-3499
Website: www.pason.com
E-Mail: info@pason.com

auditors

Deloitte & Touche LLP
Calgary, Alberta

banker

Royal Bank of Canada
Calgary, Alberta

legal counsel

Gowling Lafleur Henderson LLP
Calgary, Alberta

registrar and transfer agent

Valiant Trust Company
Calgary, Alberta

stock trading

Toronto Stock Exchange
Trading Symbol: PSI

eligible dividend designation

Pursuant to the Canadian Income Tax Act, dividends paid by the Company to Canadian residents are considered to be "eligible" dividends.

annual meeting

The Annual and Special General Meeting of Shareholders of Pason Systems Inc. will be held on Monday, May 12, 2008 at 3:30 p.m. (Calgary time) in the offices of Pason Systems Inc., 6120 Third Street S.E., Calgary, Alberta. Shareholders who are unable to attend the Meeting are requested to complete and return the Instrument of Proxy to Valiant Trust Company at their earliest convenience.

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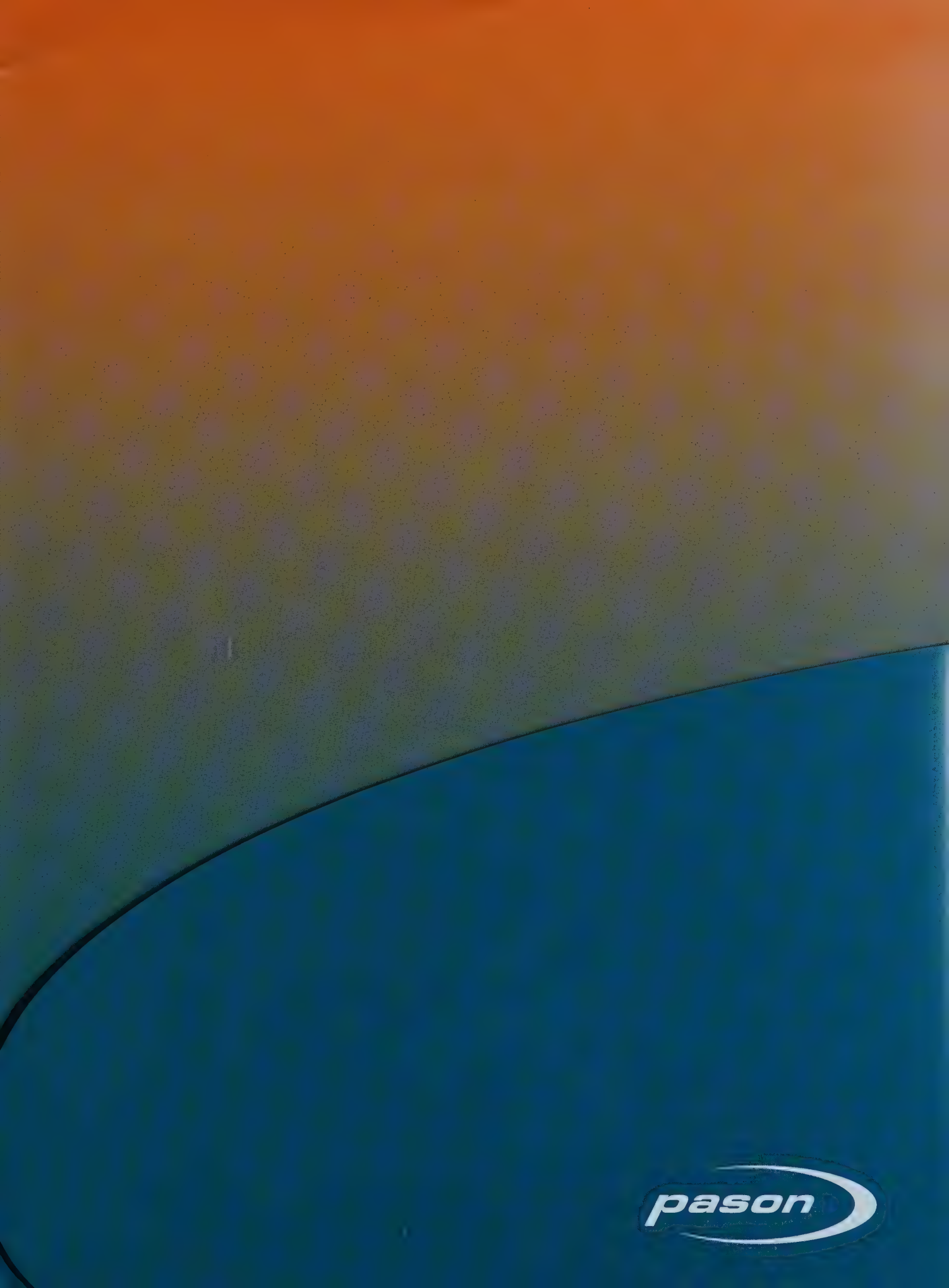

pason

6130 - 3rd Street SE | Calgary, AB, Canada | T2H 1K4 | Phone (403) 301-3400

www.pason.com

leaders in innovation

MANAGEMENT'S DISCUSSION & ANALYSIS
CONSOLIDATED FINANCIAL STATEMENTS 2007

pason

management's discussion and analysis>>

The following discussion and analysis has been prepared by management as of March 1, 2008 and is a review of the financial condition and results of operations of the Company based on accounting principles generally accepted in Canada. Its focus is primarily a comparison of the financial performance for the three months and years ended December 31, 2007 and 2006 and should be read in conjunction with the consolidated financial statements and accompanying notes.

The interim unaudited consolidated financial information for the three months ended December 31, 2007 and 2006 has not been reviewed by the Company's auditors. Certain information regarding the Company contained herein may constitute forward-looking statements under applicable securities laws. Such statements are subject to known or unknown risks and uncertainties that may cause actual results to differ materially from those anticipated or implied in the forward-looking statements.

All financial measures presented in this annual report are expressed in Canadian dollars unless otherwise indicated.

	Three Months Ended December 31,			Years Ended December 31,		
(000s, except per share data) (unaudited)	2007 ($)	2006 ($)	Change (%)	2007 ($)	2006 ($)	Change (%)
Revenue						
Drilling recorder rentals	26,239	26,583	(1)	102,955	102,115	1
Pit volume totalizer rentals	11,927	12,339	(3)	46,660	48,869	(5)
Communications rentals	5,683	6,064	(6)	22,729	25,122	(10)
Automatic driller rentals	5,157	4,886	6	19,368	19,012	2
Geological services	3,227	4,047	(20)	13,425	15,145	(11)
Total gas rentals	3,706	3,698	–	14,171	15,266	(7)
Service recorder rentals	436	427	2	2,014	1,108	82
Choke control and other income	1,904	1,430	33	6,038	5,653	7
Mobilization income	1,818	1,914	(5)	7,609	7,541	1
Interest	451	242	86	1,470	753	95
Total revenue	60,548	61,630	(2)	236,439	240,584	(2)
Expenses						
Rental services	18,325	17,745	3	72,872	63,966	14
Geological services	2,370	2,524	(6)	9,196	8,967	3
Manufacturing and distribution	2,333	2,636	(11)	8,738	9,459	(8)
Research and development	3,074	2,136	44	9,566	8,255	16
Administration	2,256	2,097	8	7,979	6,699	19
Stock-based compensation	1,267	1,297	(2)	5,248	4,597	14
Interest	38	33	15	143	622	(77)
Depreciation and amortization	7,466	11,557	(35)	42,797	39,923	7
Total expenses	37,129	40,025	(7)	156,539	142,488	10
Earnings (after taxes)	15,503	15,079	3	55,052	64,531	(15)
Per share – basic	0.19	0.19	–	0.69	0.83	(17)
Cash flow from operations	26,462	24,818	7	103,766	107,451	(3)
Per share – basic	0.33	0.32	3	1.30	1.38	(6)
Margins						
Rental services	68%	69%	(1)	67%	72%	(7)
Geological services	27%	38%	(29)	32%	41%	(22)

For the purposes of cash flow per share calculations, cash flow from operations is defined as earnings adjusted for depreciation and amortization expense, stock-based compensation expense and future income taxes. This definition is not a recognized measure under Canadian generally accepted accounting principles, and accordingly, may not be comparable to measures used by other companies.

Selected Annual Information

Years Ended December 31, (000s, except per share data) (unaudited)	2007 ($)	2006 ($)	2005 ($)
Revenue	236,439	240,584	175,747
EBITDA (1)	128,088	143,238	106,677
As a % of revenue	54.2	59.5	60.7
Per share – basic	1.61	1.84	1.40
Per share – diluted	1.59	1.79	1.36
Cash flow from operations (1)	103,766	107,451	79,369
Per share – basic	1.30	1.38	1.04
Per share – diluted	1.29	1.34	1.01
Earnings	55,052	64,531	50,280
Per share – basic	0.69	0.83	0.66
Per share – diluted	0.68	0.81	0.64
Capital expenditures	76,615	71,233	76,064
Working capital	76,783	58,495	23,684
Total assets	301,570	270,860	216,306
Shareholders' equity	270,717	231,209	163,159
Average shares outstanding (#)			
Basic	79,586	77,899	76,240
Diluted	80,630	80,087	78,544
Shares outstanding end of year (#)	80,346	78,738	77,045

(1) EBITDA is defined as earnings before interest expense, income taxes, stock-based compensation expense and depreciation expense and amortization expense. Cash flow from operations is defined as earnings adjusted for depreciation and amortization expense, stock-based compensation expense and future income taxes. These definitions are not recognized measures under Canadian generally accepted accounting principles, and accordingly, may not be comparable to measures used by other companies.

Pason's revenue is derived from the rental of instrumentation and data services to oil and gas companies and rig contractors throughout Canada, the United States and Internationally. For the fiscal year ended December 31, 2007, the Company continued to increase financial and operating results in the United States and International markets offsetting a significant slow down in Canada. Pason continues to pursue its business strategy of growth through increased market share and providing more products per wellsite.

Revenue

Revenue from instrumentation rentals and geological services decreased 2% to $60.1 million during the 2007 fourth quarter compared to $61.4 million in the 2006 three-month period. For the year ended December 31, 2007, instrumentation rentals and geological services revenue declined to $235.0 million from $239.8 million recorded in the same period a year ago. An increase of 9% in United States industry drilling days and improved revenue per industry drilling day in both Canada and the United States acted to offset the effect of a 23% decrease in the number of Canadian industry drilling days. Revenue per industry day improved 9% in the United States and 2% in Canada as a result of a rising market share of rigs, primarily in the United States, carrying at least one Pason product and increasing the number of products on each rig with a Pason presence. Revenue growth in the United States was offset by $7.8 million due to the declining U.S. dollar when converted to Canadian currency.

Revenue by Product as a Percentage of Total Revenue

Years Ended December 31,	2007	2006
	(%)	(%)
Drilling recorder rentals	44	43
Pit volume totalizer rentals	20	20
Communications rentals	10	11
Automatic driller rentals	8	8
Total gas rentals	6	6
Geological services	6	6
Mobilization income	3	3
Service recorder rentals	1	–
Choke control rentals and all other income	2	3

Instrumentation Rentals

Pason's rental products include an integrated package that offer wellsite data acquisition and drilling management benefits at both the wellsite and in the office. During the fourth quarter of 2007, revenue generated by instrumentation rentals decreased 1% to $56.9 million compared to $57.3 million a year ago. For the year ended December 31, 2007, revenue generated by instrumentation rentals totaled $221.5 million versus $224.7 million in 2006. Canadian rental revenue dropped 20% to $94.9 million from $119.4 million, rental revenue generated from U.S. operations increased 19% to $119.0 million from $99.6 million, while revenue from International activities improved 34% to $7.6 million from $5.7 million in 2006. The gross margin (rental revenue less rental expenses) as a percentage of revenue was 68% in the fourth quarter of 2007 versus 69% in 2006 and 67% for the year ended 2007 versus 72% in 2006.

In Canada, the Company's rental revenue per industry drilling day was $787 in the fourth quarter versus $748 in 2006 and $770 per day for the year, up 2% from $752 a year ago. The increase in fourth quarter revenue per day was due to adding more products per wellsite. In the United States, rental revenue per industry drilling day increased 7% to $209 in the 2007 fourth quarter compared to $196 in the 2006 three-month period and improved 14% when measured in U.S. currency. For the year, U.S. rental revenue per industry day increased 9% to $196 per day versus $179 in 2006, or 16% when measured in U.S. currency.

Electronic Drilling Recorders

The core of Pason's wellsite presence begins with the Company's Electronic Drilling Recorder (EDR) which is a complete system of instrumentation and monitoring equipment that acts as a base for all data capture, data display and communications at the drilling wellsite. At the end of 2007, Pason's electronic data acquisition instrumentation had been installed on 95% of all Canadian rigs reporting to the Canadian Association of Oilwell Drilling Contractors and 53% of all active U.S. land rigs.

Revenue generated from the Company's EDR decreased 1% to $26.2 million for the fourth quarter compared to $26.6 million for the same period in 2006. For the year ended December 31, 2007, EDR revenue totaled $103.0 million versus $102.1 million recorded a year ago. The 1% year-over-year revenue growth was primarily due to the effect of increased U.S. rental days offsetting the significant decline in Canadian rental days. During 2007, Pason's U.S. EDR annual rental days increased 23% from 238,100 to 293,500 days. The resulting positive impact was muted by Pason's annual EDR rental days in Canada declining 25% from 167,300 in 2006 to 125,900 in 2007. Pason rental days for all products are determined by the accumulated billing days from customer invoices. During 2007, the Company continued to enhance its software to allow its EDRs to take advantage of the broadband Internet access that Pason has made economically viable and available at most wellsites. During 2007, Pason increased its EDR presence in the United States by devoting $11.9 million of its EDR capital spending to the U.S. market.

Pit Volume Totalizers

The Pit Volume Totalizer (PVT) is Pason's proprietary solution for the detection and early warning of "kicks" that are caused by hydrocarbons entering the wellbore under high pressure and expanding as they migrate to the surface. The Company's PVT had been installed on 93% of Canadian and 69% of U.S. rigs operating with a Pason EDR system at the end of 2007. Fourth quarter PVT revenue decreased 3% to $11.9 million versus $12.3 million in 2006. A 24% decrease in Canadian and an offsetting 20% increase in U.S. PVT annual rental days, respectively, contributed to the overall 5% decrease in PVT rental revenue to $46.7 million from $48.9 million a year ago. The Company's U.S. PVT annual rental days totaled 192,600 compared to 161,100 days in 2006, while Canadian rental days were 118,800 versus 156,300 days a year ago. Canadian drilling regulations allow operators to reduce surface casing depth when a PVT is employed, thereby justifying the use of this instrument on practically every well.

Communications

Pason's communications rental revenue includes primarily the Company's high bandwidth automatic aiming satellite system. During the 2007 fourth quarter, communications revenue decreased 6% to $5.7 million compared to $6.1 million for the same period in 2006. For the year ended December 31, 2007, communications rental revenue was down 10% to $22.7 million from $25.1 million a year ago. During 2007, $14.5 million or 64% of the total communications revenue was from Canada and $8.0 million from the United States.

Pason's proprietary automatic aiming satellite system is the most robust in the industry and, combined with Pason's strong field service presence, has resulted in most operator or contractor customers seeing Pason as the primary provider of high-speed wellsite communications for e-mail and web application management tools. Pason displays all data in standard forms on its Internet DataHub, although if customers require greater analysis or desire to have the information transferred to another supplier's database, data is available for export from the Pason DataHub using WITSML (a specification for transferring data amongst oilfield service companies, drilling contractors and operators).

Total Gas Systems

The Pason Total Gas System (TGAS) measures the total hydrocarbon gases (C1 through C5) exiting the wellbore, and then calculates the lag time to show the formation depth where the gases were produced. This complex system provides a more accurate gas sample than competitor systems while reducing daily maintenance requirements. Fourth quarter 2007 TGAS revenue was flat at $3.7 million compared to the prior year. For the year ended December 31, 2007, TGAS revenue decreased 7% to $14.2 million compared to $15.3 million in 2006. At year-end, Pason's TGAS had been installed on 40% of Canadian and 20% of U.S. land rigs operating with a Pason EDR system.

Automatic Drillers

Pason's automatic driller (AutoDriller) is used to maintain constant weight on the drill bit while a well is being drilled. Revenue from the AutoDriller was up 6% in the fourth quarter of 2007 to $5.2 million from $4.9 million in 2006 and rose 2% for the year to $19.4 million from $19.0 million recorded at December 31, 2006. Increases of 47% or $2.3 million and 50% or $0.6 million in U.S. and International AutoDriller revenue, respectively, were offset by a reduction of 19% or $2.5 million in Canada. At the end of 2007, Pason's AutoDriller had been installed on 60% of Canadian and 24% of U.S. land rigs operating with a Pason EDR system.

Electronic Service Recorders

Pason offers an Electronic Service Recorder (ESR) that provides operational monitoring and administrative benefits on service rigs similar to the EDR on drilling rigs. Service rig operations present a challenging sensoring environment, more rig control points and an operating environment that is harsher than that of drilling rigs. During all of 2007, ESR revenue was up 82% to $2.0 million compared to $1.1 million in 2006 despite a 12% decrease in overall Canadian service rig days to 212,800 from 240,800 in 2006.

Choke Control Systems

Pason's Electronic Choke Control System is used to control and remove detected gas "kicks" from the wellbore. During the fourth quarter of 2007, revenue from this product was down 10% to $0.9 million from $1.0 million a year ago and decreased 23% at year-end to $3.4 million from $4.4 million in 2006. As at December 31, 2007, the Pason Electronic Choke Control System had been installed on approximately 26% of all Canadian rigs in operation. The Company's business model for this product sees Pason providing only the electronic actuation and display, while the drilling contractor is responsible for the choke valve portion of the system. Although this model provides for greater industry safety and it is slowly gaining acceptance in the United States as some Canadian rigs have migrated south, to date the vast majority of revenue for this product has been derived from Canada.

Hazardous Gas Alarm

Beginning in 2007, Pason offered a monitoring system for both explosive gases (LEL) and H_2S where both readings and an alarm system are integrated with the EDR. Revenue from this product (recorded in other income) for all of 2007 was $0.4 million. This was primarily generated in the Canadian market as U.S. rental units only came on line in the fourth quarter of 2007.

Geological Services

Due to the strong link between the geological service provider and the specialized equipment that is employed, in the United States market Pason provides geologists to monitor gas in the drilling returns, to pick formation tops and to analyze drilling cuttings. Historically, manned geological services (commonly referred to as mudlogging) was a minor niche industry employed on only a very small percentage of wells drilled. Pason offers an entire service spectrum from completely remote geological services to multiple on-site geologists. Fourth quarter revenue from geological services declined 20% to $3.2 million from $4.0 million in 2006, while its annual revenues decreased 11% to $13.4 million from $15.1 million recorded a year ago. The gross margin for these services was 32%, down from 41% in 2006, due to cost cutting activities by Pason customers on manned geological services. Pason's geological services continue to be concentrated in the U.S. Rocky Mountain region where more complicated drilling structures increase the need for these specialized services. However, demand for manned logging days dropped 16% in 2007. Pason continues to offer lower priced semi-manned or unmanned geological services from the Company's geological command centre located in Golden, Colorado.

Expenses

Total expenses decreased 7% to $37.1 million in the fourth quarter from $40.0 million for the same period in 2006. For the year ended December 31, 2007, total expenses rose 10% to $156.5 million from $142.5 million the prior year. The Company continues to incur primarily fixed expenses related to maintaining its field service infrastructure and increase its investment in research and development of new products in order to be in a favourable position to profit from the next business cycle.

Individual Expense Items as a Percentage of Total Expenses

Years Ended December 31,	2007	2006
	(%)	(%)
Rental services	47	45
Depreciation and amortization	27	28
Geological services	6	6
Research and development	6	6
Manufacturing and distribution	6	7
Administration	5	5
Stock-based compensation	3	3

Expenses, continued from previous page...

Rental services expense for the fourth quarter, which represented 49% of the period's total expenses, increased 3% to $18.3 million from $17.7 million a year ago. During 2007, rental services expense, which represented 47% of the year's total expenses, increased 14% to $72.9 million compared to $64.0 million in 2006. These expenses consisted primarily of wages and related benefit costs representing approximately 35% of the total rental services expenses in both Canada and the United States, and the additional direct costs of field service technicians, including but not limited to vehicle costs, communication, equipment repairs and freight. Of the $8.9 million year-over-year increase in total rental services expense, $6.7 million was incurred in the United States ($3.0 million for labour and related costs, $1.6 million for vehicle costs, $1.1 million for equipment repairs and $1.0 million for field expenses) and Canada increased $0.9 million ($1.4 million for equipment repairs, $0.5 million for software, $0.3 million for labour and related costs, all offset by reductions of $0.8 million for vehicles and $0.5 million for communication expenses). The remaining $1.3 million increase was incurred throughout the International operations. Pason's field service technicians are employed year round, and as a result, the Company's related expenses have a heavily weighted fixed component that is critical to its high service level. At December 31, 2007, Pason employed 206 field service technicians versus 201 at December 31, 2006. To improve the field service component, Pason employs regional rental managers in both its Canadian and U.S. operations.

Geological services expense decreased 6% to $2.4 million in the fourth quarter of 2007 from $2.5 million in 2006 and rose 3% to $9.2 million from $9.0 million for the full year. The $0.2 million year-over-year increase was for labour and related costs.

Costs related to the manufacturing and distribution of Pason products decreased 11% to $2.3 million in the 2007 fourth quarter from $2.6 million in 2006. For the year, these expenses decreased 8% to $8.7 million from $9.5 million a year ago. Most of the year-over-year decrease was due to lower personnel costs of $0.5 million due to increased outsourcing to third party contract manufacturers. The remaining $0.3 million decrease was from lower inventory write-downs during the year.

Research and development (R&D) expenses, which are largely labour and overhead related, increased 44% to $3.1 million in the quarter versus $2.1 million in 2006. For the year ended December 31, 2007, R&D expenses were up 16% to $9.6 million from $8.3 million a year ago, while gross annual deferred development costs increased $0.4 million to $1.9 million from $1.5 million in 2006. The 2007 deferred development costs were reduced to $0.5 million, by netting $1.4 million (2006 - $nil) in investment tax credits received during the year. At December 31, 2007, there were 76 employees devoted to research and development, up from 67 at December 31, 2006. The Company also entered into a contract in December 2007 to add an additional 20 full time equivalent people with a third party Canadian software house to complement our current R&D team.

Administrative expenses for the fourth quarter totaled $2.3 million, an 8% increase over the $2.1 million recorded in the same 2006 period. For the year ended December 31, 2007, these expenses increased 19% to $8.0 million from $6.7 million a year ago. Of the $1.3 million increase, $0.5 million was for labour and related costs, $0.4 million for software and the remaining $0.4 million for various other corporate costs. Administrative costs represented 3% of total revenue in both 2007 and 2006.

All stock options issued to employees and directors have been accounted for using the fair value method of accounting as recommended by the Canadian Institute of Chartered Accountants, which for the year ended December 31, 2007 resulted in an expense of $5.2 million, a 14% increase from the $4.6 million recorded in 2006. The corresponding accounting entry in 2007 created the contributed surplus as shown under shareholders' equity on the Company's balance sheet. As options are exercised, that were previously expensed, share capital and contributed surplus are adjusted accordingly.

Interest expense was insignificant during the fourth quarter of 2007 and $0.1 million for the full year 2007 compared to $0.6 million in 2006.

Expenses, continued from previous page...

Depreciation and amortization expenses decreased 35% to $7.5 million in the 2007 fourth quarter from $11.6 million recorded in the 2006 period. For the year ended December 31, 2007, depreciation and amortization expenses rose 7% to $42.8 million from $39.9 million in 2006, which represented 27% of the year's total expenses in 2007 versus 28% in 2006. At December 31, 2007 and 2006, these expenses included losses on the disposal of assets of $2.4 million each year. The overall increase in depreciation in 2007 was primarily due to the Company's change in depreciation policy from unit-of-use to the declining balance method. This effect was offset in 2007 by reducing R&D amortization expense by $2.2 million due to prior years' investment tax credits received during the year.

Income tax expense increased 21% to $7.9 million for the three-month period compared to $6.5 million a year ago and decreased 26% to $24.8 million for the year ended December 31, 2007 from $33.6 million in 2006. A decrease in earnings before tax of $18.2 million, down 19% from 2006, contributed to the decrease in total taxes payable for the year. The Company's combined current and future effective tax rate for 2007 was 31.1% versus 34.2% a year ago.

Margins

The margin generated by the Company's rental products declined to 68% in the fourth quarter of 2007 versus 69% in 2006. For the year ended December 31, 2007, margin was 67% versus 72% in 2006. The Company improves its margins in Canada primarily from increases in rental products per site and less from price increases. This effect was muted in 2007 due to the significant drop in Canadian industry days without a corresponding decrease in the Company's primarily fixed cost base in Canada. In the United States, the Company is improving margins by increasing the number of rental products per wellsite. The geological services margin decreased to 27% for the fourth quarter of 2007 from 38% in 2006 and dropped to 32% for the year from 41% in 2006 as customers reduced demand for higher priced manned services.

Earnings

Year-over-year fourth quarter earnings increased 3% to $15.5 million or $0.19 per share basic from $15.1 million or $0.19 per share in the 2006 three-month period. Earnings for the year decreased to $55.1 million or $0.69 per share basic from $64.5 million or $0.83 per share basic in 2006. This 15% earnings reduction was due primarily to a decrease in the Company's Canadian revenue stream despite strong drilling activity in the United States and increases to revenue per industry drilling day in both Canada and the United States.

Cash Flow from Operations [1]

Operating cash flow increased 7% to $26.5 million or $0.33 per share basic in the fourth quarter of 2007 from $24.8 million or $0.32 per share basic in 2006. For the year ended December 31, 2007, cash flow from operations decreased to $103.8 million or $1.30 per share basic from $107.5 million or $1.38 per share basic a year ago. The 3% or $3.7 million cash flow decrease was a result of a $9.5 million decrease in earnings offset by increases of $2.9 million in depreciation and amortization, $2.3 million in future income tax and $0.6 million in stock-based compensation. During 2007, cash flow was used primarily to finance the Company's capital expenditure program and pay common share dividends.

(1) For the purposes of cash flow per share calculations, cash flow from operations is defined as earnings adjusted for depreciation and amortization expense, stock-based compensation expense and future income taxes. This definition is not a recognized measure under Canadian generally accepted accounting principles, and accordingly, may not be comparable to measures used by other companies.

Liquidity and Capital Resources

At December 31, 2007, the Company's working capital position was $76.8 million versus $58.5 million a year ago. Due to the rental nature of Pason's business, inventory is treated as a capital asset, and as a result, does not affect the Company's working capital.

Proceeds from the exercise of Company stock options totaled $11.4 million compared to $7.5 million in 2006, resulting in the issuance of 1.61 million common shares versus 1.69 million common shares the prior year. The average price on options exercised increased 59% to $7.07 per share from $4.45 per share in 2006.

During 2007, cash flow funded the Company's $76.6 million capital expenditure program, representing an 8% increase from the prior year's total expenditure amount of $71.2 million. Funds were used to acquire and build $76.1 million of new capital assets and product enhancements with a further $0.5 million (net of investment tax credits received of $1.4 million in 2007) spent on deferred development costs versus $69.7 million and $1.5 million, respectively, in 2006. Geographically, $31.9 million of the new capital assets were added to Canada, $39.3 million to the U.S. and $5.4 million Internationally. This compares to $23.9 million, $40.9 million and $6.4 million, respectively, a year ago.

At December 31, 2007, the Company had no capital lease obligations.

During 2007, the Company entered into a 364-day $30.0 million committed revolving credit facility to replace its existing operating line of credit. At December 31, 2007, $11.8 million was drawn on this facility versus $nil in 2006. In addition to this facility, the Company's U.S. subsidiary has a U.S. $1.5 million line of credit. At both December 31, 2007 and 2006, there was no amount drawn on this facility.

During 2007, Pason continued to declare and pay semi-annual common share dividends. In the second quarter of 2007, the Company declared and paid a dividend of $6.0 million or $0.075 per share. In the fourth quarter of 2007, the Company declared a dividend of $6.8 million or $0.085 per share, payable on January 2, 2008. Total 2007 dividends declared were $12.8 million or $0.16 per share compared to $9.8 million or $0.125 per share declared in 2006.

Disclosure of Outstanding Share Data

At March 1, 2008, there were 80.54 million common shares and 6.60 million options issued and outstanding.

	Options Outstanding			Options Exercisable	
Range of Exercise Prices ($)	Options Outstanding (000s)	Weighted Average Remaining Contractual Life (Years)	Weighted Average Exercise Price ($)	Exercisable (Vested) (000s)	Weighted Average Exercise Price ($)
3.00 – 11.00	1,800	0.60	7.45	1,626	7.20
11.01 – 13.50	2,431	2.94	12.24	199	12.38
13.51 – 17.75	2,372	1.58	15.24	1,074	15.08
	6,603	1.81	12.01	2,899	10.48

Contractual Obligations

(000s)	Total ($)	Less than 1 Year ($)	1-3 Years ($)	Thereafter ($)
Operating leases	18,254	4,779	9,998	3,477

Contractual Obligations, continued from previous page...

Contractual obligations relate to minimum future lease payments required primarily for operating leases for certain facilities and vehicles.

New Products

For competitive and disclosure accuracy reasons, it is the Company's policy not to divulge details of a new product until it is in an advanced prototype stage since its commercial viability is often not determined until that time. Products discussed below are at a stage where they have been demonstrated and deployed in the field with positive responses from customers, but their ultimate market potential is still uncertain.

Directional Software

The directional drilling market in Canada is under continuing pressure from operators to reduce costs significantly. As the cost of retaining experienced workers at the wellsite (including providing for their accommodation and security) increases dramatically, Pason's model of remote management continues to attract substantial interest. Pason has already demonstrated the use and success of this model with its geology command centre in its U.S. head office. Pason is now working with various directional drilling companies to come up with a software solution that will decode tools and provide visual feedback to the rig crew. The Company expects to have a marketable solution available during 2008.

Mud Analyzer

Consistent with the theme of removing expensive manpower from the field, Pason is set to come to market with an industry-first mud analyzer in 2008. The Pason mud analyzer will be fully integrated with the EDR and allows for consistent, accurate, repeatable and simple to operate chemical fluid analyses at the rig site. This product could significantly reduce the need to have a contractual mud technician visit active wellsites on a daily basis, as is the norm today. The Pason mud analyzer will do this remotely by leveraging Pason's data gathering, communications and remote management technology.

Drilling Optimizer

During 2005, Pason acquired a drilling optimization software program that will ultimately aid customers in extracting greater value from their drilling data. The software has proved its value with several major Canadian operators, however still requires considerable training and consulting in its operation. Work continued in 2007 and contributed to some improvements in ease of use. However, there remain challenges that are being addressed by the Pason development team in 2008.

International Markets

Pason has developed an international business model for renting its equipment in countries where drilling rig instrumentation has typically been purchased. As a result, Pason retains ownership of its equipment while protecting itself from overhead and unexpected costs associated with local service companies. Pason continues to expand its South American operations through its local partner. From the Company's primary base in Argentina, Pason operates in all South American oil producing countries except Venezuela. Overall South American revenue increased $1.9 million during 2007 due to higher revenue generating installs in Peru, Colombia and Ecuador as well as an overall $0.3 million increase in electronic service recorder rentals. At December 31, 2007, Pason EDRs were installed on 85 rigs versus 74 rigs in 2006, while AutoDrillers were installed on 49 rigs compared to 47 rigs a year ago.

International Markets, continued from previous page...

At year-end 2007, the Company provided instrumentation packages for 20 rigs in Mexico compared to 17 rigs in 2006. The year-over-year increase was due to a limited increase in integrated services contracts from the national oil company, Pemex. Operations in Australia advanced during the year with 8 rigs installed by year-end compared to 4 rigs in 2006, each carrying an EDR, PVT and TGAS.

During 2007, revenue from International operations was $7.6 million, an increase of 34% over the $5.7 million in 2006. International operations contributed $4.8 million in 2007 segment operating profit compared to $3.3 million in 2006.

Accounting Changes

The Company adopted several new accounting standards issued by the Canadian Institute of Chartered Accountants ("CICA") during 2007. Other Comprehensive Income (OCI) is a new concept first introduced in CICA Section 1530 "Comprehensive Income" and Section 3251 "Equity". Comprehensive income is comprised of earnings and OCI. Pason's only OCI element arises from unrealized foreign currency translation gains or losses on translating the Company's self-sustaining foreign operations using the current rate method. Included in the Consolidated Statements of Comprehensive Income for the year ended December 31, 2007 was an unrealized loss of $19.4 million versus an unrealized gain of $1.2 million in 2006. This was a direct result of the strong appreciation of the Canadian dollar versus the U.S. dollar during 2007. The cumulative changes in the unrealized foreign currency translation gains and losses that were previously disclosed in shareholders' equity under the caption *foreign currency translation adjustment* have been reclassified to another component of shareholders' equity called *accumulated other comprehensive loss,* which represents the cumulative amounts of OCI. Both sections have been applied retroactively and all comparative financial statements have been restated accordingly.

In the first quarter of 2007, the Company also changed its depreciation policy on certain capital assets. Rental equipment, which was previously depreciated on a unit-of-use method, is now depreciated on the declining-balance method at an annual rate of 20% with no residual value. Management believes that because of the nature of the Company's rental systems, which are comprised of a significant number of component parts, the declining balance method is most appropriate as it treats all of the parts as a pool of assets rather than discrete rental units. The full impact of this change on a retroactive basis was measured and the Company concluded that the differences arising from the comparison of the old to new method were immaterial to the overall consolidated financial statements. Consequently, the Company has not restated any prior period.

Details of all other accounting changes affecting the Company during the year are included in Note 3 of the 2007 Consolidated Financial Statements.

Critical Accounting Estimates

The preparation of the consolidated financial statements requires that certain estimates and judgements be made with respect to the reported amounts of revenue and expenses and the carrying value of assets and liabilities. These estimates are based on historical experience and management's judgements, and as a result, the estimates used by management involve uncertainty and may change as additional experience is acquired.

Depreciation and Amortization

The accounting estimates that have the greatest impact on the Company's financial statements are depreciation and amortization. Depreciation of the Company's capital assets includes estimates of useful lives. These estimates may change with experience over time so that actual results could differ significantly from these estimates.

Carrying Value of Capital Assets

Long-lived assets are to be tested for impairment at least annually. An impairment loss is required to be recognized when the carrying amount of a long-lived asset exceeds the sum of the undiscounted cash flows expected to result from its use and eventual disposition. Management reviewed the current year and forecast 2008 earnings before interest, taxes, depreciation and amortization for the various assets and determined there were no indications, events or changes in circumstances that would indicate that the carrying amounts may not be recoverable.

Risks and Uncertainties

The major area of uncertainty for Pason is that the demand for its services is directly related to the strength of its customers' capital expenditure programs. The level of capital programs is strongly affected by the level and stability of commodity prices, which can be extremely difficult to predict and beyond the control of Pason and its customers. During periods of uncertainty, oil and gas companies tend to bias their capital decisions on conservative outlooks for commodity prices.

Weakness in commodity prices can also impact the ability of the Company's customers to pay for the services provided. However, as Pason has a very broad customer base and its services are a minor component when looking at the overall cost of drilling a well, the risk is minimal.

Once the associated costs for the implementation of any proposed energy reduction programs are determined, customers' cash flows and capital expenditure programs may be affected.

Merger and acquisition activity in the oil and gas exploration and production sector may impact demand for the Company's services, as customers tend to focus on reorganization activities prior to committing funds to major drilling programs.

In addition to the cyclical nature of its business, Pason is also subject to risks and uncertainties associated with weather and seasonality. Pason continues to react to unfavourable weather conditions and spring breakup, which limit well access in Canada, through diversification into geographic regions such as the United States and Internationally where these factors are less likely to influence activity.

Pason faces the challenge of attracting and retaining employees to meet its various specialized needs. The Company attempts to overcome this by offering a different, more empowered working culture, an attractive compensation package and training as required to enhance skills.

The Company does not employ hazardous materials, so the possibility of environmental liabilities is limited.

Pason carries adequate levels of insurance to protect the Company. Due to the wide geographical distribution of equipment, the possibility of a loss to a significant portion of its asset base is extremely unlikely. As the Company's equipment is largely unmanned, the customer assumes responsibility for its operations.

Risks and Uncertainties, continued from previous page...

The Company has defended its position in patent infringement lawsuits in Canada and the United States regarding the Company's automatic driller. In 2004 in the United States, the trial court refused to grant the requested injunction to prevent the Company from renting the automatic driller in that country. In 2006, a Federal Appeals Court ruled that the trial court had misconstrued the language of one of the claims in the patent at issue and remanded the case to the trial court to hold a full trial on the merits of the claim of infringement and the Company defences, including that the patent in question is invalid and that there is no infringement. In the Canadian case, the matter remains in the early stages. At this time, management's assessment of the outcomes continues to be that the asserted patents are not valid, and as a result, they are not expected to have a significant adverse impact on the Company's financial position or operations.

The Company is involved in other legal actions and potential claims in the normal course of business. In the opinion of management, the aggregate amount of any potential liability is not expected to have a material adverse impact on the Company's financial position or results.

Outlook

Pason continues to be well positioned to profit from increased oilfield activity levels once the next business cycle begins. The average number of U.S. active land drilling rigs was 1,715 in 2007, up slightly from 1,700 in 2006. According to *The Land Rig News Letter*, 2008 is estimated to remain flat with an average of 1,715 active rigs in the United States. In Canada, as a result of uncertain gas prices, a strong Canadian dollar and the uncertainty of the Alberta Government's recent royalty program review, drilling activity for the year slowed to 19,100 wells with approximately 121,000 drilling days compared to over 23,900 wells and 157,200 drilling days in 2006. According to FirstEnergy Capital of Calgary, the estimated Canadian activity in 2008 is expected to total 15,300 wells drilled over 107,300 drilling days. The anticipated eventual recovery in drilling activity in Canada presents an opportunity for Pason products, and therefore, the Company expects to see rising revenues from its new products as well as its established mainline products. Pason anticipates spending $50 million during 2008 to add new products, new units of existing products and enhancements in Canada, and to a greater extent in the United States and Internationally where significant room for additional market share exists. The Company will continue to pursue International opportunities that fall within its service model parameters.

Pason's strengths in hardware design, software development, data communications, storage infrastructure and service support allow it to continue to outperform the general industry, and as a result, continue to offer superior shareholder value.

The Company was successful in outsourcing its manufacturing operations in 2007. Looking forward, there remain many challenges and opportunities to continuously improve processes so that strong margins can be realized in the next business cycle. Pason continues to work on major system improvements in operations, capital asset tracking and billings software development.

Operational Information

(unaudited)	Industry Drilling Days (#)	Pason Rental Revenue (U.S.$000s)	Pason Rental Revenue (CDN$000s)	Revenue Per Industry Drilling Day (U.S.$)	Revenue Per Industry Drilling Day (CDN$)
Canada [1]					
1998	89,400		14,800		166
1999	81,800		15,000		183
2000	117,400		29,000		247
2001	120,400		35,900		298
2002	92,000		32,088		349
2003	126,500		56,393		446
2004	132,400		73,149		552
2005	158,300		104,850		662
2006	157,200		118,159		752
2007	121,000	N/A	93,167	N/A	770
United States [2]					
1998	258,400	2,224	3,300	9	13
1999	191,600	2,832	4,200	15	22
2000	281,400	5,048	7,500	18	27
2001	354,400	11,154	17,300	31	49
2002	253,700	10,365	16,276	41	64
2003	329,500	19,323	26,962	59	82
2004	390,700	29,966	39,004	77	100
2005	458,500	46,608	56,419	102	123
2006	557,800	87,866	99,649	158	179
2007	607,000	111,067	119,031	183	196

(1) Source: Canadian Association of Oilwell Drilling Contractors.

(2) Baker Hughes weekly active rig count.

	Canada		United States	
Years Ended December 31,	2007	2006	2007	2006
(unaudited)				
EDR rental days (#)	125,900	167,300	293,500	238,100
PVT rental days (#)	118,800	156,300	192,600	161,100
EDR revenue per rental day ($)	288	277	216	223
PVT revenue per rental day ($)	168	161	134	142

Numbers are impacted by the EDR configurations in each country and by the stronger Canadian dollar in 2007 versus 2006.

Summary of Quarterly Results

Three Months Ended (000s, except per share data)	Mar.31, 2006 ($)	Jun.30, 2006 ($)	Sep.30, 2006 ($)	Dec.31, 2006 ($)	Mar.31, 2007 ($)	Jun.30, 2007 ($)	Sep.30, 2007 ($)	Dec.31, 2007 ($)
(unaudited)								
Revenue	67,728	47,706	63,520	61,630	70,320	44,597	60,974	60,548
Earnings	20,130	11,620	17,702	15,079	18,524	5,376	15,649	15,503
Per share – basic	0.26	0.15	0.23	0.19	0.23	0.07	0.20	0.19
Per share – diluted	0.25	0.14	0.22	0.19	0.23	0.07	0.19	0.19
Cash flow from operations [1]	33,206	19,659	29,768	24,818	30,129	18,574	28,601	26,462
Per share – basic	0.43	0.25	0.38	0.32	0.38	0.23	0.36	0.33
Per share – diluted	0.41	0.24	0.37	0.31	0.38	0.23	0.35	0.33

(1) For the purposes of cash flow per share calculations, cash flow from operations is defined as earnings adjusted for depreciation and amortization expense, stock-based compensation expense and future income taxes. This definition is not a recognized measure under Canadian generally accepted accounting principles, and accordingly, may not be comparable to measures used by other companies.

Q4 - 2007

- Revenue decreased 2% to $60.5 million, earnings increased 3% to $15.5 million and earnings per diluted share were the same as the fourth quarter of 2006 at $0.19.

Q3 - 2007

- Revenue decreased 4% to $61.0 million, earnings declined 12% to $15.6 million and earnings per diluted share fell 14% to $0.19 versus 2006.

Q2 - 2007

- Revenue decreased 7% to $44.6 million, earnings declined 54% to $5.4 million and earnings per diluted share fell 50% to $0.07 versus the second quarter of 2006.

Q1 - 2007

- Revenue increased 4% to $70.3 million, earnings declined 8% to $18.5 million and earnings per diluted share fell 8% to $0.23 versus 2006.

Q4 - 2006

- Quarterly revenue increased 10% to $61.6 million, while earnings decreased 13% to $15.1 million and earnings per diluted share decreased 14% to $0.19 versus the same period in 2005.

Q3 - 2006

- Best ever third quarter revenue of $63.5 million, a 32% increase, while net earnings improved 24% to $17.7 million and earnings per diluted share rose 22% to $0.22 over 2005.

Q2 - 2006

- Strongest second quarter in history with revenue totaling $47.7 million, a 60% increase. Net earnings improved 133% to $11.6 million and earnings per diluted share rose 133% to $0.14 over the same period in 2005.

Q1 - 2006

- Quarterly revenue increased 62% to $67.7 million, earnings grew 47% to $20.1 million and earnings per diluted share rose 39% to $0.25 versus the 2005 first quarter.

Summary of Quarterly Results, continued from previous page...

Variations in Pason's quarterly financial results are due in part to the seasonality of the oil and gas service industry in Canada, which is somewhat offset by the less seasonal nature of United States and International operations. The first quarter is generally the strongest quarter for the Company due to strong activity in northern areas when location access is best during the winter. The second quarter is always the slowest due to spring breakup in Canada when many areas are not accessible due to ground conditions, and therefore, do not permit the movement of heavy equipment. Activity generally increases in the third quarter, depending on the year, as ground conditions have often improved and location access becomes available; however, a rainy summer can have a significant adverse effect on drilling activity. By the fourth quarter, often the Company's second strongest quarter, access to most areas becomes available with ground freezing. Consequently, the performance of the Company may not be comparable quarter to consecutive quarter and should be considered on the basis of results for the whole year, or by comparing results in a quarter with results in the same quarter for the previous year.

Statement Regarding Internal Controls over Financial Reporting and Disclosure Controls

As of December 31, 2007, the Company had carried out a review of internal controls over financial reporting under the supervision of and with the participation of management, including the President and Chief Executive Officer and the Chief Financial Officer. Changes in internal controls that have affected, or are likely to affect, financial reporting have been identified and are outlined below.

Daily Charge Record

In 2007, the Company continued a project in Canada that uses an electronic pre-approval process at the wellsite. The electronic approval process is intended to eliminate billings' delays while waiting for paper backup and improve the accuracy and timeliness of invoicing for customers. Work is continuing on this process in 2008 as the Company is planning to switch from its current third party supplier of this software and replace it with internally developed software.

Asset Tagging and Tracking

Pason is continuing its process of tagging all rental equipment with barcode labels that uniquely identify each asset. The goal of the project is to improve asset tracking, repair process monitoring and to enable the Company to locate assets at a specific geographical location. This will enable the Company to more efficiently and effectively manage rental equipment in the field.

Pason has rental assets operating on the majority of land-based drilling rigs in North America. These rigs are constantly moving as drilling programs evolve. Due to the inherent difficulty of locating all of Pason's rental assets in the field and the current status of internal controls related to capital assets, it is possible that the Company will not be able to track and locate 100% of all rental equipment. These factors have been considered in choosing and consistently applying the Company's depreciation policy. Looking forward, this project will continue to improve the Company's internal control over capital asset management. Based on asset identification results to date, management's assessment is that a potential write-off of rental equipment that cannot eventually be located is not expected to have a significant adverse impact on the Company's financial position or operations.

The President and Chief Executive Officer and the Chief Financial Officer have also concluded that disclosure controls and procedures have remained effective during 2007.

SEDAR

Additional information relating to the Company can be accessed on the Company's website at www.pason.com and on the Canadian Securities Administrators' System for Electronic Document Analysis and Retrieval (SEDAR) at www.sedar.com.

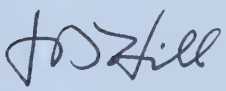
management's report>>

To the Shareholders of Pason Systems Inc.

The accompanying consolidated financial statements are the responsibility of management and have been approved by the Board of Directors of the Company. Management is responsible for and has prepared and presented the consolidated financial statements in accordance with Canadian generally accepted accounting principles ("GAAP") and has made significant accounting judgements and estimates as required. Management has ensured that financial information contained elsewhere in this Annual Report is consistent with the consolidated financial statements.

Management has prepared the Management's Discussion and Analysis ("MD&A"). The MD&A is based on the Company's financial results prepared in accordance with Canadian GAAP. The MD&A compares the audited financial results for the years ended December 31, 2007 and 2006.

The Audit Committee of the Board of Directors, which is comprised of three independent directors, has discussed the consolidated financial statements, including the notes thereto, with management and the external auditors. The Board of Directors has approved the consolidated financial statements on the recommendation of the Audit Committee.



JAMES D. HILL
President & Chief Executive Officer

JIM GLASSPOOLE
Chief Financial Officer

Calgary, Alberta
February 15, 2008

auditors' report>>

To the Shareholders of Pason Systems Inc.

We have audited the consolidated balance sheets of Pason Systems Inc. as at December 31, 2007 and 2006 and the consolidated statements of earnings and retained earnings, comprehensive income, accumulated other comprehensive loss and of cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of Pason Systems Inc. as at December 31, 2007 and 2006 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Deloitte & Touche LLP

Chartered Accountants

Calgary, Alberta
February 15, 2008

consolidated balance sheets>>

December 31, (000s)	2007 ($)	2006 ($)
Assets		
Current		
Cash, net of bank indebtedness (Note 8)	23,159	21,857
Accounts receivable	73,454	70,173
Prepaid expenses	1,987	1,816
Income taxes receivable	2,652	–
	101,252	93,846
Investment (Note 5)	3,000	3,000
Capital assets (Note 6)	192,620	171,458
Deferred development costs (Note 7)	4,698	2,556
	301,570	270,860
Liabilities		
Current		
Accounts payable and accrued liabilities	17,647	22,256
Income taxes payable	–	7,192
Dividends payable (Note 9)	6,822	5,903
	24,469	35,351
Future income taxes (Note 10)	6,384	4,300
	30,853	39,651
Shareholders' Equity		
Share capital (Note 9)	51,505	38,085
Contributed surplus (Note 9)	10,323	7,130
Accumulated other comprehensive loss	(29,710)	(10,353)
Retained earnings	238,599	196,347
	270,717	231,209
	301,570	270,860

Approved by the Board of Directors

HAROLD R. ALLSOPP
Director

JAMES B. HOWE
Director

consolidated statements of earnings and retained earnings>>

Years Ended December 31, (000s, except per share data)	2007 ($)	2006 ($)
Revenue		
Equipment rentals	221,544	224,686
Geological services	13,425	15,145
Interest	1,470	753
	236,439	240,584
Expenses		
Rental services	72,872	63,966
Geological services	9,196	8,967
Manufacturing and distribution	8,738	9,459
Research and development	9,566	8,255
Administration	7,979	6,699
Stock-based compensation (Note 9)	5,248	4,597
Interest	143	622
Depreciation and amortization (Notes 6 and 7)	42,797	39,923
	156,539	142,488
Earnings before income taxes	79,900	98,096
Income taxes (Note 10)		
Current	24,179	35,165
Future	669	(1,600)
	24,848	33,565
Earnings	55,052	64,531
Retained earnings, beginning of year	196,347	141,609
Dividends (Note 9)	(12,800)	(9,793)
Retained earnings, end of year	238,599	196,347
Earnings per share (Note 12)		
Basic	0.69	0.83
Diluted	0.68	0.81

consolidated statements of comprehensive income>>

Years Ended December 31, (000s)	2007 ($)	2006 ($)
Earnings	55,052	64,531
Other comprehensive loss		
Foreign currency translation adjustment, net of tax	(19,357)	1,173
Total comprehensive income	35,695	65,704

consolidated statements of accumulated other comprehensive loss>>

Years Ended December 31, (000s)	2007 ($)	2006 ($)
Accumulated other comprehensive loss, beginning of year	(10,353)	–
Reclassification from foreign currency translation adjustment (Note 3)	–	(11,526)
Other comprehensive loss		
Foreign currency translation adjustment, net of tax	(19,357)	1,173
Accumulated other comprehensive loss, end of year	(29,710)	(10,353)

consolidated statements of cash flows>>

Years Ended December 31, (000s)	2007 ($)	2006 ($)
Cash flows related to the following activities:		
Operating		
Earnings	55,052	64,531
Adjustments for non-cash items:		
Depreciation and amortization	42,797	39,923
Stock-based compensation	5,248	4,597
Future income taxes	669	(1,600)
	103,766	107,451
Changes in non-cash working capital (Note 15)	(19,713)	(4,345)
	84,053	103,106
Financing		
Repayment of credit facility	-	(10,000)
Issue of common shares under the stock option plan	11,365	7,542
Payment of dividends (Note 9)	(11,881)	(3,890)
Dividend payable (Note 9)	919	5,903
	403	(445)
Investing		
Additions to capital assets	(76,083)	(69,698)
Deferred development costs, net of investment tax credits received	(532)	(1,535)
Proceeds on disposal of capital assets	118	387
Changes in non-cash working capital (Note 15)	(2,974)	(3,588)
	(79,471)	(74,434)
Effect of exchange rate changes on cash	(3,683)	89
Net increase in cash and cash equivalents	1,302	28,316
Cash and cash equivalents, beginning of year	21,857	(6,459)
Cash and cash equivalents, end of year	23,159	21,857
Represented by:		
Cash	28,112	15,954
Cash held in trust (Note 9)	6,822	5,903
Bank indebtedness (Note 8)	(11,775)	–
Cash and cash equivalents	23,159	21,857
Supplemental cash flow information		
Interest paid	143	624
Income tax paid	28,706	37,012

notes to consolidated financial statements>>

Years Ended December 31, 2007 and 2006
(000s, except per share data)

1. Description of Business

Pason Systems Inc. (the "Company") designs and manufactures specialized proprietary instrumentation for rent on land-based drilling and service rigs.

2. Basis of Presentation

These consolidated financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles ("GAAP"). The accompanying consolidated financial statements include the accounts of Pason Systems Inc. and its wholly owned subsidiaries, Pason Systems Corp., Pason U.S. Holdings Corp., Pason de Mexico S.A. de C.V. , Pason Australia Pty Limited and Pason Systems USA Corp. and Pason U.S. Financial Corp., both wholly-owned subsidiaries of Pason U.S. Holdings Corp. All inter-company transactions have been eliminated.

3. Changes in Accounting Policies

The following new accounting standards issued by the Canadian Institute of Chartered Accountants ("CICA") were adopted by the Company on January 1, 2007. Prior periods have not been restated as a result of applying these new standards except as required by the new standard to classify unrealized foreign currency translation gains or losses on self-sustaining foreign operations in accumulated other comprehensive income.

a) Section 1530 "Comprehensive Income" and Section 3251 "Equity" - this introduces comprehensive income, which is comprised of earnings and other comprehensive income (OCI) and accumulated other comprehensive income. OCI represents changes in shareholders' equity during a period from unrealized foreign currency translation gains and losses on self-sustaining foreign operations, which is the only component of the Company's OCI.

   The cumulative changes in the unrealized foreign currency translation gains and losses that were previously disclosed in shareholders' equity under the caption foreign currency translation adjustment have been reclassified to another component of shareholders' equity called accumulated other comprehensive income, which represents the cumulative amounts of OCI.

   Both sections have been applied retroactively and all comparative financial statements have been restated accordingly.

b) Section 3855 and 3861 - "Financial Instruments" - this standard requires that all financial instruments be initially classified into one of the following components: held for trading financial assets and financial liabilities, loans or receivables, held to maturity investments, available for sale financial assets, and other financial liabilities. All financial instruments are measured on the balance sheet at fair value except loans and receivables, held to maturity investments and other financial liabilities, which are measured at amortized cost. Subsequent measurement will depend upon the initial classification. Changes in value of instruments held for trading are recorded in earnings. Gains and losses on available for sale instruments are recorded in OCI until settled at which time the amounts would be included in earnings. All other instruments are recorded at amortized cost.

   The Company's financial instruments consist of cash, accounts receivable, investments, bank indebtedness, and accounts payable and accrued liabilities. The following classifications were made at January 1, 2007:

   - Cash is classified as a financial asset held for trading.
   - Accounts receivable are classified as loans or receivables.
   - Investments are classified as available for sale.
   - Bank indebtedness, accounts payable and accrued liabilities are all classified as other financial liabilities.

Changes in Accounting Policies, continued from previous page...

The carrying amounts for all of the Company's financial instruments approximate their fair values due to the short-term nature of these items. Other balance sheet accounts are not considered financial instruments and thus not within the scope of this standard.

Embedded derivatives are required to be separated and measured at fair values if certain guidelines are met. Management has reviewed contracts and determined that the Company does not have embedded derivatives that require separate accounting treatment.

c) Section 1506- "Accounting Changes" - the Company implemented the revised recommendations of Section 1506 relating to accounting changes. The revisions to this section include changes in accounting policies, accounting estimates and correction of errors. A change in accounting policy should be made only if it is required under GAAP or results in the financial statements providing more reliable and relevant information. Accounting policy changes are applied retroactively unless it is impractical to determine the impact of such change in prior periods. Corrections of prior period errors are applied retroactively and changes in estimates are applied prospectively.

In the first quarter of 2007, the Company changed its depreciation policy on certain capital assets. Rental equipment, which was previously depreciated on a unit-of-use method, is now depreciated on the declining-balance method at an annual rate of 20% with no residual value. Management believes that because of the nature of the Company's rental systems, which are comprised of a significant number of component parts, that the declining balance method is most appropriate as it treats all of the parts as a pool of assets rather than discrete rental units. The full impact of this change on a retroactive basis was measured and the Company concluded that the differences arising from the comparison of the old to new method were immaterial to the overall consolidated financial statements. Consequently, the Company has not restated any prior period.

4. Significant Accounting Policies

Cash and Cash Equivalents

Cash reflects cash on deposit, cash held in trust, net of bank indebtedness.

Investments

Investments are recorded at cost. If there are other than temporary declines in value, investments are recorded at realizable value.

Capital Assets

Capital assets include parts and raw materials awaiting assembly. These assets are recorded at cost and no depreciation is taken.

All rental equipment, except for the assets described below, is recorded at cost and is depreciated using the declining-balance method at an annual rate of 20% with no residual value.

Geological services equipment is recorded at cost and is depreciated on a straight-line basis over 60 months. Satellite systems and electronic cables are recorded at cost and depreciated on a straight-line basis over 36 months.

Leasehold improvements are amortized on a straight-line basis over the terms of the leases, which range from two to ten years.

Capital Assets, continued from previous page...

All remaining capital assets are recorded at cost and are depreciated using the declining-balance method at the following annual rates with no residual value:

Trucks and truck boxes	30%
Other	20%

Research and Development (R&D)

The Company expenses all research expenditures as incurred. Development costs are expensed as incurred unless they meet the criteria for deferral and amortization under Canadian generally accepted accounting principles. Investment tax credits are recorded only when received and are netted against the related R&D costs.

Development costs incurred on new product development projects, which in management's view have clearly defined market prospects, are technologically feasible and for which the Company intends to commit resources, are deferred and amortized over three years commencing in the year in which the new products begin generating rental revenue. However, if at any time a product is deemed no longer commercially viable, the balance of the related deferred costs is expensed.

Foreign Currency Translation

The accounts of the Company's self-sustaining foreign operations are translated into Canadian dollars using the current rate method. Assets and liabilities are translated at the period-end exchange rate and revenues and expenses are translated at average semi-monthly exchange rates. Gains and losses arising from the translation of the financial statements of the foreign operations are included in OCI.

Monetary assets and liabilities relating to foreign denominated transactions are initially recorded at the rate of exchange in effect at the transaction date. Gains and losses resulting from subsequent changes in foreign exchange rates are recorded in earnings for the period.

Income Taxes

The Company follows the liability method of accounting for income taxes. Under this method, the Company records future income taxes for the effect of any differences between the accounting and income tax basis of an asset or liability. The effect of a change in income tax rates on future income tax assets and liabilities is recognized in the period that the change is substantively enacted, based on the rates in effect when the temporary differences are expected to reverse.

Revenue Recognition

Revenue is recognized during the reporting period based on completion of each rental day for products and services, provided collectibility is reasonably assured.

Impairment of Long-Lived Assets

The Company determines whether the net carrying amount of capital assets is recoverable from future undiscounted cash flows at least annually at year-end or when indicators of impairment exist. The Company's operations along with the market and business environment are continually monitored. Judgements and assessments are made to determine whether an event has occurred that indicates a possible impairment. If such an event has occurred, an estimate is made of future undiscounted cash flows from the capital asset. If the total of the undiscounted future cash flows, excluding finance charges, is less than the carrying amount of the capital assets,

Impairment of Long-Lived Assets, continued from previous page...

asset impairment is recognized in the financial statements. The amount of the impairment to be recognized is calculated by subtracting the fair value of the asset from the carrying value of the asset. Fair value is the amount at which an item could be bought or sold in a current environment between willing parties, and is estimated by calculating the present value of expected future cash flows related to the asset.

Stock-Based Compensation Plans

The Company has a stock option plan under which stock options are accounted for using the fair value method estimated on the date of grant using the Black-Scholes option pricing model. Consideration received on the exercise of stock options together with the amount of non-cash compensation expense recognized in contributed surplus, for these same options, is recorded as an increase in share capital.

Use of Estimates

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenue and expenses during the reporting period. The most significant of these estimates are related to the amortization period for capital assets, the valuation of capital assets, the assessment of the viability of new product development projects, the provision for doubtful accounts receivable, stock-based compensation assumptions and estimates in the provision for future income taxes. Actual results could differ from these estimates.

Earnings Per Share

Basic earnings per share are calculated by dividing the earnings available to common shareholders by the weighted average number of common shares outstanding. Diluted earnings per share, which reflect the potential dilution that would occur if in-the-money stock options were exercised, is calculated using the treasury stock method.

Future Accounting Pronouncements

The following new standards are effective in the first quarter of 2008. The Company is evaluating the impact of these new standards, but management does not anticipate that these will have a material impact on the Company's financial position or results of operations.

Section 3031 - "Inventories" - provides guidance on the determination of the cost of inventory including any write-downs required to net realizable value.

Section 1535 – "Capital Disclosures" - provides guidelines for the disclosure of information regarding a company's capital and how it is managed with enhanced disclosure around objectives, policies and processes for managing capital.

Section 3862 and 3863 - "Financial Instruments Disclosure and Presentation "- requires increased disclosure regarding risks associated with financial instruments and how this risk is managed as well as further standards for the presentation and classification of financial instruments.

5. Investment

The Company has a portfolio investment in shares of a private company that is recorded at cost of $3,000. There is no quoted price in an active market for these shares, and therefore, this investment is carried at cost.

6. Capital Assets

	Cost ($)	Accumulated Depreciation and Amortization ($)	Net Book Value ($)
2007			
Parts and raw materials	8,069	–	8,069
Rental equipment	282,208	109,987	172,221
Other	26,548	14,218	12,330
	316,825	124,205	192,620
2006			
Parts and raw materials	24,727	–	24,727
Rental equipment	222,910	84,430	138,480
Other	21,192	12,941	8,251
	268,829	97,371	171,458

Depreciation and amortization expense recorded with respect to capital assets in 2007 was $44,407 (2006 - $38,564). Included in depreciation and amortization expense are losses on the disposal of assets in the amount of $2,420 (2006 - $2,376). No impairment of capital assets has been recorded for 2007 or 2006.

The Company outsources most of its manufacturing to third party contract manufacturers. During 2007, the Company transferred parts and raw materials at cost to third party contract manufacturers to be utilized in the Company's future capital expenditure program. The balances owing from these contract manufacturers are recorded as a component of accounts receivable.

7. Deferred Development Costs

	2007 ($)	2006 ($)
Accumulated costs, beginning of year	9,372	7,837
Additional costs deferred during the year	1,948	1,552
Investment tax credits received	(1,394)	–
Non commercial project costs expensed during the year	(22)	(17)
	9,904	9,372
Accumulated amortization	(5,206)	(6,816)
Net deferred development costs, end of year	4,698	2,556

Deferred Development Costs, continued from previous page...

Amortization expense is comprised of :

Years Ended December 31,	2007 ($)	2006 ($)
Amortization of costs	554	1,359
Amortization of investment tax credits	(2,164)	–
	(1,610)	1,359

8. Credit Facility

During 2007 the Company entered into a 364-day $30.0 million committed revolving credit facility. Interest is payable monthly and is based on either the lenders' prime rate, U.S. base rate loans, Bankers' Acceptance rates or at the London Inter-Bank Offered Rate (LIBOR) plus applicable margins.

The credit facility is used by the Company for working capital purposes, and accordingly, amounts drawn against it are recorded as bank indebtedness.

The Company can repay, without penalty, advances under the facility. The facility is secured by a general security agreement on all of the assets of the Company, Pason Systems Corp. and Pason Systems USA Corp.

At December 31, 2007, an amount of $11.8 million had been drawn on the facility.

The Company is subject to certain financial covenants that have been met at December 31, 2007.

The effective average interest rate in 2007 on all borrowings under the credit facility was 6.0% .

The Company's U.S. subsidiary has available a US$1.5 million revolving line of credit at U.S. bank prime rate less 0.50%. No amounts were outstanding on December 31, 2007 and 2006.

9. Share Capital

Authorized

- Unlimited number of common shares
- Unlimited number of preferred shares, issuable in series

Share Capital, continued from previous page...

Issued

Common shares

	Shares (#)	Amount ($)
Balance, December 31, 2005	77,045	29,496
Exercise of stock options	1,693	7,542
Contributed surplus adjustment on exercise of stock options	–	1,047
Balance, December 31, 2006	78,738	38,085
Exercise of stock options	1,608	11,365
Contributed surplus adjustment on exercise of stock options	–	2,055
Balance, December 31, 2007	80,346	51,505

Stock Option Plan

At December 31, 2007, 6,908 stock options were outstanding for common shares at exercise prices ranging from $3.00 to $17.75 per share, expiring between 2008 and 2011 as follows:

	2007		2006	
	Share Options (#)	Weighted Average Exercise Price ($)	Share Options (#)	Weighted Average Exercise Price ($)
Outstanding, beginning of year	6,889	10.84	7,110	7.92
Granted	2,201	12.34	2,096	15.67
Exercised	(1,608)	7.07	(1,693)	4.45
Forfeited	(574)	14.20	(624)	11.09
Outstanding, end of year	6,908	11.91	6,889	10.84
Exercisable, end of year	2,898		2,879	
Available for grant, end of year	1,127		985	

All options are issued at market price and vest over three years. Options issued prior to November 2004 expire five years after the date of issuance. Effective November 2004 through October 2006, options granted expire three years and 60 days after issuance. Effective November 2006, options granted expire three years and six months after issuance.

Stock Option Plan, continued from previous page...

The following table summarizes information about stock options outstanding at December 31, 2007:

	Options Outstanding			Options Exercisable	
Range of Exercise Prices ($)	Options Outstanding (#)	Weighted Average Remaining Contractual Life (Years)	Weighted Average Exercise Price ($)	Exercisable (Vested) (#)	Weighted Average Exercise Price ($)
3.00 – 11.00	1,998	0.72	7.46	1,626	6.95
11.01 – 13.50	2,482	3.09	12.24	214	12.36
13.51 – 17.75	2,428	1.74	15.25	1,058	15.03
	6,908	1.93	11.91	2,898	10.30

The maximum allowable number of shares that can be issued from the exercise of stock options is 30,000. As of December 31, 2007, 28,594 options have been granted; 6,908 options are outstanding; 5,082 options have been forfeited; and 6,488 options are available to be granted. The total number of options outstanding must not exceed 10% of the total common shares outstanding.

Stock options granted to employees and directors have been accounted for using the fair value method. Stock-based compensation expense of $5,248 (2006 - $4,597) was recorded in the consolidated statement of earnings, using the following weighted average assumptions for grants issued during the year:

Year Ended December 31,	2007
Fair value of stock options ($)	2.57
Forfeiture rate (%)	15.57
Risk-free interest rate (%)	3.77
Expected option life (years)	3.13
Expected volatility (%)	32.00
Annual dividends per share (%)	1.0

Contributed Surplus

Amounts recorded to contributed surplus of $5,248 (2006 - $4,597) relating to the fair value of stock options expensed and subsequent reduction for options exercised are as follows:

Years Ended December 31,	2007 ($)	2006 ($)
Contributed surplus, beginning of year	7,130	3,580
Stock-based compensation expense	5,248	4,597
Stock options exercised	(2,055)	(1,047)
Contributed surplus, end of year	10,323	7,130

Common Share Dividends

During 2007 the Company declared dividends of $12,800 (2006 - $9,793) or $0.16 per common share (2006 - $0.125). Of this amount $6,822 is payable at year end and the Company has transferred these funds to the transfer agent to be held in trust until the dividend payment is made in January 2008.

10. Provision for Income Taxes

The provision for income taxes, including future income taxes, reflects an effective income tax rate that differs from the actual combined Canadian federal and provincial statutory rates of 32.1% (2006 - 32.5%). In addition, the U.S. group of companies is subject to federal and state statutory tax rates of approximately 40% for both 2007 and 2006. The main differences are as follows:

	2007 ($)	2006 ($)
Earnings before income taxes	79,900	98,096
Expected income tax at statutory rate	25,664	31,881
Increase (decrease) resulting from:		
Tax rates in other jurisdictions	379	417
Stock-based compensation	(547)	1,494
Non-taxable dividends	(1,819)	(402)
Other permanent differences and other items	1,171	175
Provision for income tax expense	24,848	33,565

The provision for future income taxes arises from temporary timing differences in the recognition of revenue and expenses for income tax and accounting purposes. The net future income tax liability as at December 31 is comprised of the following temporary differences relating to:

	2007 ($)	2006 ($)
Working capital items	(1,182)	(1,832)
Capital assets	7,566	6,132
	6,384	4,300

The Company also has available U.S. net operating losses of $7.3 million. No benefit has been recognized in the consolidated financial statements for these losses which expire in 2027.

During 2006, the Company utilized U.S. net operating losses of $7.7 million that were carried forward from 2005 to reduce current income taxes otherwise payable.

11. Financial Instruments and Credit, Currency and Interest Risks

Fair Values

The carrying values of financial instruments, which include cash, accounts receivable, investments, accounts payable and accrued liabilities, and dividends payable approximate fair value due to the short-term nature of these instruments. The carrying value of the Company's credit facility also approximates fair value as it bears interest at floating market rates.

Credit Risk

The Company is exposed to credit risk to the extent that its customers, operating primarily in the oil and natural gas industry, may experience financial difficulty and would be unable to meet their obligations. However, the Company has a large number of customers, which minimizes concentration of credit risk, and in addition, assesses the credit worthiness of its customers on a continual basis.

Foreign Exchange Risk

A significant portion of the Company's operations relate to its subsidiary located in the United States that is considered self-sustaining. As a result of fluctuations in the Canadian dollar relative to the U.S. dollar, the Company may be exposed to foreign exchange risks.

Interest Rate Risk

The Company is exposed to interest rate risk on its market rate credit facility.

12. Per Share Amounts

Basic earnings per share figures have been calculated using 79,586 (2006 - 77,899) weighted average number of common shares outstanding during the year. Diluted amounts per share have been calculated based on the treasury stock method using the weighted average number of common shares and dilutive equity instruments representing an additional 1,044 shares (2006 - 2,188) for a total of 80,630 shares (2006 - 80,087) used to calculate diluted earnings per share figures.

Excluded from the calculation of diluted earnings per share were weighted average options outstanding of 2,173 shares (2006 - 789) as the options' exercise price was greater than the average market price of the common shares for the year.

13. Segmented Information

The Company operates in three geographic segments within one industry segment. Rental services are provided in Canada, the United States and Internationally (South America, Mexico and Australia). The amounts related to each segment are as follows for the years ended December 31:

	Canada ($)	United States ($)	International ($)	Total ($)
2007				
Revenue	95,647	133,147	7,645	236,439
Depreciation and amortization	22,536	18,818	1,443	42,797
Operating costs	41,198	55,726	1,356	98,280
Segment operating profit	31,913	58,603	4,846	95,362
Research and development				9,566
Stock-based compensation				5,248
Corporate expenses				505
Interest				143
Income taxes				24,848
Earnings				55,052
Total assets	160,759	128,348	12,463	301,570
Capital expenditures	31,861	39,309	5,445	76,615

Segmented Information, continued from previous page...

2006				
Revenue	119,662	115,227	5,695	240,584
Depreciation and amortization	20,737	18,170	1,016	39,923
Operating costs	39,873	47,253	1,384	88,510
Segment operating profit	59,052	49,804	3,295	112,151
Research and development				8,255
Stock-based compensation				4,597
Corporate expenses				581
Interest				622
Income taxes				33,565
Earnings				64,531
Total assets	157,707	104,598	8,555	270,860
Capital expenditures	23,906	40,862	6,465	71,233

14. Commitments

Minimum future lease payments required primarily for operating leases for certain facilities and vehicles payable over the next five years are as follows:

	Amount ($)
2008	4,779
2009	4,253
2010	4,276
2011	1,469
2012 and thereafter	3,477

At the end of 2007 the Company signed a three year outsourcing agreement with a supplier to assist its software development team. Either party can terminate the agreement with six months notice. The annual costs are anticipated to be approximately $3.0 million.

15. Non-Cash Working Capital

Changes in non-cash working capital are comprised of the following:

Years Ended December 31,	2007 ($)	2006 ($)
Increase in accounts receivable	(8,788)	(5,231)
Increase in prepaid expenses	(344)	(231)
Decrease in accounts payable and accrued liabilities	(3,807)	(737)
Decrease in income taxes payable	(9,748)	(1,734)
	(22,687)	(7,933)

Comprised of the following activities:		
Operating	(19,713)	(4,345)
Investing	(2,974)	(3,588)
	(22,687)	(7,933)

16. Contingencies

The Company has defended its position in patent infringement lawsuits in Canada and the United States regarding the Company's automatic driller. In 2004 in the United States, the trial court refused to grant the requested injunction to prevent the Company from renting the automatic driller in that country. In 2006, a Federal Appeals Court ruled that the trial court had misconstrued the language of one of the claims in the patent at issue and remanded the case to the trial court to hold a full trial on the merits of the claim of infringement and the Company defences, including that the patent in question is invalid and that there is no infringement.

In the Canadian case, the matter is in the early stages. At this time, management's assessment of the outcomes continues to be that the asserted patents are not valid, and/or the Company does not infringe on any valid claims, and as a result, they are not expected to have a significant adverse impact on the Company's financial position or operations. Accordingly, no amount has been accrued for any potential loss under these claims in the consolidated financial statements at December 31, 2007.

The Company is involved in other legal actions and potential claims in the normal course of business. In the opinion of management, the aggregate amount of any potential liability is not expected to have a material adverse impact on the Company's financial position or results.

historical review>>

Selected Financial Data

Years Ended Dec.31, (000s, except per share data)	2007 ($)	2006 ($)	2005 ($)	2004 ($)	2003 ($)	2002 ($)	2001 ($)	2000 ($)	1999 ($)	1998 ($)
Operating Results										
Revenue	236,439	240,584	175,747	122,212	91,801	55,311	63,016	42,144	24,668	23,768
Expenses										
Rental services	72,872	63,966	45,661	33,468	23,367	17,159	13,641	9,290	5,649	4,830
Geological services	9,196	8,967	6,532	4,954	4,283	4,608	6,262	5,326	3,852	3,568
Manufacturing & distribution	8,738	9,459	6,422	3,579	2,835	2,359	2,551	1,900	1,426	1,125
Administration	7,979	6,699	4,076	3,062	2,647	2,427	2,415	2,826	1,867	1,631
Research & development	9,566	8,255	6,379	4,995	3,663	3,009	2,750	2,006	1,403	967
Stock-based compensation	5,248	4,597	2,595	1,290	170	–	–	–	–	–
Depreciation & amortization	42,797	39,923	27,198	18,992	15,017	8,913	7,341	5,340	2,898	2,584
EBITDA	128,088	143,238	106,677	72,154	55,005	25,749	35,396	20,798	10,472	11,647
As a % of revenue	54.2	59.5	60.7	59.0	59.9	46.6	56.2	49.4	42.5	49.0
Per share-basic	1.61	1.84	1.40	0.97	0.76	0.36	0.52	0.31	0.16	0.18
Cash flow from operations	103,766	107,451	79,369	54,640	40,463	18,534	24,941	14,797	7,966	7,417
Per share – basic	1.30	1.38	1.04	0.73	0.56	0.26	0.36	0.22	0.12	0.12
Earnings	55,052	64,531	50,280	33,842	24,596	9,606	15,437	8,117	4,084	4,900
Per share – basic	0.69	0.83	0.66	0.46	0.34	0.14	0.23	0.12	0.06	0.08
Capital expenditures	76,615	71,233	76,064	41,518	34,041	14,069	22,921	23,419	10,851	8,294
Financial Position										
Current assets	101,252	93,846	66,527	39,024	31,064	22,728	20,276	18,150	11,461	10,470
Total assets	301,570	270,860	216,306	139,012	112,289	90,191	82,252	64,451	40,193	30,736
Working capital	76,783	58,495	23,684	21,540	9,235	4,295	5,135	1,416	3,283	5,769
Long-term facility	–	–	4,286	–	–	115	395	635	–	–
Future income tax	6,384	4,300	6,018	6,781	6,558	6,268	6,284	3,800	2,159	1,030
Shareholders' equity	270,717	231,209	163,159	114,747	83,902	65,878	53,941	35,448	26,261	22,639
Return on shareholders' equity	22%	33%	36%	34%	33%	16%	35%	26%	17%	24%
Common Share Data										
Common shares outstanding (#)										
At December 31	80,346	78,738	77,045	75,530	73,784	71,612	69,744	67,156	65,184	64,676
Weighted average	79,586	77,899	76,240	74,658	72,700	70,992	68,588	66,416	65,028	64,412
Share trading										
High ($)	17.93	19.20	15.13	9.90	6.38	3.34	2.59	2.44	1.73	2.13
Low ($)	11.51	13.11	8.86	5.75	2.91	2.16	1.50	1.38	0.56	0.63
Close ($)	12.49	13.26	14.45	9.25	6.30	2.99	2.28	1.74	1.56	0.73
Volume (#)	34,560	22,804	22,884	36,900	18,540	21,916	17,692	12,932	13,064	19,948

6130 - 3rd Street SE | Calgary, AB, Canada | T2H 1K4 | Phone (403) 301-3400

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